

An Empirical Analysis of Financial Performance Using Working Capital Indicators: Evidence from Jayanthi Textiles PVT LTD

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ABSTRACT

Working Capital Management is one area which plays a most significant role in the proper functioning and financial stability of an organization. However, there are many problems which are being faced by the organizations, like improper planning for the cash flow, inventory holding costs, delays in the collection of debts, and improper management of payables. The scope of the study is confined to effective utilisation of working capital management in Jayanthi Textiles, Coimbatore. The study analyses the 5 years financial statement such as Income statement and Balance sheet of the company. The sample period of the study is 2020-2021 to 2024-2025. Analytical research design and purposive sampling technique has been used. Secondary data was used. Financial statements of the company have been used as secondary data. Ratio analysis, comparative and common size balance sheet analysis tools have been applied as statistical tool to reach the findings of the study. The conclusive finding is that working capital management effectiveness has a high influence on the financial stability and operational effectiveness. The evaluation shows that the changes in the liquidity ratio, profitability ratio, and efficiency ratios are indicators of discrepancies in the management of current assets and liabilities. The decreasing tendencies of some of the ratios like working capital ratio, inventory turnover, and profitability indicators indicate that the financial planning and control should be improved. Meanwhile, the increase in solvency and returns on investment is a sign that there can be further growth provided resources are used effectively. It is also concluded that a good balance between liquidity and profitability is also necessary so that long term sustenance is achieved.

Keywords: *Working Capital Management, Financial Performance, Predictive Analytics, Liquidity, Profitability, Financial Flexibility.*

INTRODUCTION

The term working capital means the circulation of capital in one form or another during the day to day operations business Working capital is defined in the annual survey of the industries to the include stock of material, stores, fuels ,semi finished goods including work-in- progress and finished and by products, cash in hand and algebraic sum of sundry creditors.Management of working capital is concerned with the problem that arises in attempting to manage the current assets, current liabilities. The basic goal of working capital management is to manage the current assets and current liabilities of a firm in such a way that a satisfactory level of working capital is maintained, i.e. it is neither adequate nor excessive as both the situations are bad for any firm. There should be no shortage of funds and also no working capital should be ideal. Working capital management polices of a firm has a great on its probability, liquidity and structural health of the organization

REVIEW OF LITERATURE

Morshed A. (2020) found that effective working capital management improves profitability and highlights the complementary relationship between accounting and finance. The study also emphasized that aggressive and conservative policies influence risk and return.**Kafeel Ali J. et al. (2020)** used dynamic panel data models and observed that inventory and payable periods positively affect profitability, while the cash conversion cycle negatively impacts firm performance.**Najib H. S. Farhan et al. (2021)** analyzed Indian pharmaceutical companies and concluded that working capital components significantly influence financial performance, though the cash conversion cycle shows a negative relationship.**Muhammad Yousaf et al. (2021)** reported a negative relationship between working capital and firm performance, while highlighting that firms with quality certifications perform better.Studies during crisis periods,

such as **Muhammad Ahmad et al. (2022)** and **Tarkom A. (2022)**, revealed that working capital management becomes more challenging during events like COVID-19, leading to increased cash conversion cycles and reduced efficiency. Research in emerging markets by **Ngo Diem Nhat Phuong (2022)** indicated a negative relationship between working capital indicators and firm performance, supporting earlier findings. Recent studies such as **Nakamura Wilson Toshiro (2023)** and **Song Zhen (2023)** highlighted that firm size, debt, and working capital turnover significantly influence performance, and advanced models like neural networks improve prediction accuracy. Further, **Jana D. (2024)** and **Kushalappa S. (2024)** confirmed that efficient management of receivables, inventory, and cash cycle enhances profitability. Recent contributions by **Singh Moirangthem B. (2025)** and **Ansari M. N. A. (2025)** emphasized maintaining optimal liquidity and balancing profitability with risk.

SCOPE OF THE STUDY

The scope of the study is confined to effective utilisation of working capital management. The study is focused to analyse the Jayanthi Textiles, Coimbatore. The study analyses the 5 years financial statement such as Income statement and Balance sheet of the company. It throws lights on to understand the short-term liquidity positions of company. The study helps to the researcher to evaluate the profitability position of the company.

STATEMENT OF THE PROBLEM

Working Capital Management is one area which plays a most significant role in the proper functioning and financial stability of an organization. However, there are many problems which are being faced by the organizations, like improper planning for the cash flow, inventory holding costs, delays in the collection of debts, and improper management of payables. Also, there is improper forecasting for the short-term financial requirements, which may lead to liquidity crunch or holding excess funds, both of which may impact the overall efficiency of the operations. There is improper coordination with the finance, purchase, or sale departments, which may lead to disequilibrium in the current assets and current liabilities. Improper management of the working capital may lead to an increase in the cost of borrowings, lower profitability, and weakening the financial position of the firm for meeting its short-term requirements. Continuous inefficiency in working capital management sooner or later reflects in overall organizational performance, growth opportunities, and market competitiveness. Thus, there is a need for systematic examination of existing working capital practices and identification of operational and financial gaps. This paper intends to analyze major issues in Working Capital Management and assess their impact on liquidity and profitability. The conclusions drawn from this study will help the organization adopt effective strategies to optimally use working capital, ensuring improved financial stability and overall organizational performance.

RESEARCH OBJECTIVES :

- To examine the effect of inventory management in working capital management in improving the use of funds.
- To analyze the influence of liquidity position on working capital management in ensuring smooth day-to-day operations.
- To evaluate the effect of operating efficiency and cash management practices on working capital management in optimizing the use of current assets and liabilities.
- To assess the influence solvency position on working capital management in maintaining long-term financial stability and ensuring a balanced capital structure.
- To study the association between profitability and working capital management in maintaining a balance between liquidity and return.

CONCEPTUAL FRAMEWORK:

The structural model of this study focuses on examining the relationship between various components of working capital and the financial performance of a company. It primarily considers key elements such as inventory management, receivables management, and payables management, and analyzes their impact on both liquidity and profitability. Effective management of these components enables organizations to utilize their resources efficiently and enhance overall operational performance. In addition, the model incorporates predictive analytics techniques to forecast

future financial outcomes and support informed decision-making. This approach allows firms to plan proactively, minimize uncertainties, and effectively address financial challenges. Overall, the model helps organizations maintain an optimal balance between risk and return, thereby improving financial performance and ensuring long-term stability.

TABLE NO.1: WORKING CAPITAL RATIO

Year	Net working capital	Net assets	Ratio
2020-2021	22.91	117.92	0.19
2021-2022	22.72	127.80	0.18
2022-2023	11.92	124.38	0.10
2023-2024	12.46	133.73	0.09
2024-2025	1.83	132.51	0.01

RESEARCH METHODOLOGY

The methodology the researcher adopted in the present study was systematic, as explained in the above paragraph, in accordance with the aims set for it, as explained in the preceding pages. Methodology is the way to do the systematic research in solving the given problem. Research methodology has as many dimensions as the term itself, as the research method constitutes the part of it, thus when we say we have used the particular method in the given research, we explain the reasons why we use it or used it.

ANALYSIS AND INTERPRETATION

(Source: secondary data)

Interpretation

The above table 4.1 indicates that the Working capital ratio is 0.19 in the year of 2020-2021. It has decreased to 0.18 in the year of 2021-2022. It has decreased to 0.10 in the year of 2022-2023. It has further decreased to 0.09 and 0.01 in the year of 2023-2024 and 2024-2025 respectively.

TABLE NO:2 INVENTORY TURNOVER RATIO

Year	Cost of goods sold	Average inventory	Ratio
2020-2021	213.30	283.54	0.75
2021-2022	3.42	56.69	0.06
2022-2023	1.09	52.72	0.02
2023-2024	-19.01	61.14	-0.31
2024-2025	20.10	70.10	0.29

(Source: secondary data)

Interpretation

The above table 4.2 indicates that the inventory turnover ratio is 0.75 in the year of 2020-2021. It has decreased to 0.06 in the year of 2021-2022. It has further decreased to 0.02 and -0.31 in the year of 2022-2023 and 2023-2024 respectively. It has increased to 0.29 in the year of 2024-2025.

TABLE NO.3:DEBTORS TURNOVER RATIO			
Year	Sales	Debtors	Ratio
2020-2021	208.95	31.44	6.65
2021-2022	205.42	33.58	6.12
2022-2023	242.33	27.00	8.98
2023-2024	255.96	27.98	9.15
2024-2025	217.49	20.46	10.63

(Source: secondary data)

Interpretation

The above table 4.3 indicates that the debtor's turnover ratio is 6.65 in the year of 2020-2021. It has decreased to 6.12 in the year of 2021-2022. It has increased to 8.98 in the year of 2022-2023. It has further increased to 9.15 and 10.63 in the year of 2023-2024 and 2024-2025 respectively.

TABLE NO.3 TREND PERCENTAGE OF NET PROFIT		
Year	Net profit	Trend
2020-2021	8.15	100
2021-2022	0.42	5
2022-2023	3.46	42
2023-2024	9.37	115
2024-2025	9.11	112

(Source: secondary data)

Interpretation

The above table 4.13 indicates that the trend percentage of net profit ratio is 100 in the year of 2020-2021. It has decreased to 5 in the year of 2021-2022. It has increased to 42 in the year of 2022-2023. It has further increased to 115 in the year of 2023-2024. It has decreased to 112 in the year of 2024-2025.

SUGGESTION:

The company needs to optimize its current assets position and manage the short term liabilities better to ensure that it has adequate working capital ratio. The company should intensify inventory management and use effective stock management techniques to enhance inventory turnover. The firm needs to improve on its credit policy and pay close attention to the receivables to improve the turnover ratio on the debtors. Facilitate effective collection methods and credit terms should be optimized further to minimize the average collection Turnover of the company. The company should manage operating costs and enhance better sales performance to boost the net profit ratio. The company ought to maximize the use of assets and make sure that the resources are well used to ensure a constant return on total assets. The company must keep investing in lucrative opportunity and proper allocation of capital so as to enhance the returns on investment. The company should enhance shareholder returns; it should enhance the profitability and ensure that its earnings performance is steady.

CONCLUSION

The conclusive finding is that working capital management effectiveness has a high influence on the financial stability and operational effectiveness. The evaluation shows that the changes in the liquidity ratio, profitability ratio, and efficiency ratios are indicators of discrepancies in the management of current assets and liabilities. The decreasing tendencies of some of the ratios like working capital ratio, inventory turnover, and profitability indicators indicate that the financial planning and control should be improved. Meanwhile, the increase in solvency and returns on investment is a sign that there can be further growth provided resources are used effectively.

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